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OPEC Countries: Tanker Fleet Expansion

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# Intelligence Memorandum

## *OPEC Countries: Tanker Fleet Expansion*

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### OPEC Countries: Tanker Fleet Expansion

Members of the Organization of Petroleum Exporting Countries (OPEC), long interested in increasing their role in the downstream operations of the petroleum industry, are investing part of their growing oil revenues to expand their tanker fleets. Acting through cooperative arrangements, national programs and joint ventures with foreign maritime powers, OPEC countries plan to invest \$4-\$6 billion to expand their combined fleet from 2.3 million deadweight tons (DWT) on 1 January 1975 to 30.5 million DWT by 1980. To date, implementation of these plans is proceeding slowly, with only 7.6 million DWT on order. Even if these ambitious goals are met, by 1980 OPEC will control less than 10% of the world tanker fleet. Although flag preference legislation will assure full utilization of the OPEC fleet, it will be able to carry only about 22% of OPEC's oil exports. Nevertheless, as the OPEC fleet expands, new ship purchases or the acquisition of used tankers will impact on the international tanker market. Continued orders for new ships will intensify the tanker glut forecast over the next few years, while purchases of used ships will tend to ease this glut and provide a market for hard-pressed tanker owners.

Note: Comments and queries regarding this memorandum are welcomed. They may be directed to [REDACTED] of the Office of Economic Research, Code 143, Extension 6981.

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## DISCUSSION

### Current Status of Oil Producer Tanker Fleets

1. As of 1 January 1975, OPEC nations controlled a tanker fleet of 2.3 million DWT, about 1% of the total world tanker fleet of 250 million DWT. Of the total, 1.5 million DWT were owned by Arab countries; Kuwait, the largest Arab tanker owner, controlled 793,000 DWT; Iraq, 269,000 DWT; and Libya, 263,000 DWT. Venezuela operates the largest non-Arab fleet with 420,000 DWT (see Table 1). Many of the tankers in the OPEC fleets are under long-term charter to major oil companies.

2. International oil companies directly own about 80 million DWT and charter another 130 million DWT from independent tanker owners, giving them effective control of about 85% of the world tanker fleet. The remainder are government owned, laid-up, or independently owned tankers not under charter.

### Fleet Development Plans

3. The oil producers plan to spend some \$4-\$6 billion<sup>1</sup> to expand their overall fleet to around 30.5 million DWT by 1980-82, 8% of the projected 400 million DWT world tanker fleet. Arab countries -- particularly Iraq, Saudi Arabia, and Kuwait -- will account for more than 26 million DWT, while Iran and Venezuela are expected to lead the non-Arab producers (see Table 1).

4. Despite these ambitious plans, orders and purchases of new tankers are proceeding slowly. About 7.6 million DWT are on order for delivery by 1979, leaving OPEC 20.6 million DWT short of its 1980 goal. Among the reasons for this cautious approach are

- uncertainty in the world tanker market and a growing tanker surplus;
- the likelihood that plummeting prices for used tankers will fall even further, increasing the availability of tankers for sale;
- the shortage of management expertise and trained personnel in the oil producing countries; and

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1. Total cost will vary depending on the types of acquisitions. New orders will push costs closer to \$6 billion, while resales of existing contracts or the purchase of used tonnage will reduce costs.

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- the prospect that the reopening of the Suez Canal and the likely construction of the SUMED pipeline will change tanker size requirements and the composition of the world tanker fleet.

### *Cooperative Arrangements*

5. The Arab Maritime Petroleum Transport Company (AMPTC) was organized in 1973 under the leadership of Kuwait and Saudi Arabia. Other members include Abu Dhabi, Algeria, Bahrain, Libya, Qatar, and Iraq. The original capital subscription of \$100 million was increased to \$200 million a few months after incorporation and is expected to increase again to \$500 million by 1977. A 10 million DWT fleet costing more than \$2 billion is planned by 1980-82. The company has ordered six VLCCs<sup>2</sup> in the 300,000 to 400,000 DWT range from West Germany and France at a cost of almost \$400 million. Although these vessels are believed to be in addition to ships ordered by individual Arab countries, they will be registered under Saudi, Kuwaiti, Libyan, Iraqi, and Algerian flags. At the same time, AMPTC is active in the used market and is searching for at least three tankers in the 100,000 to 300,000 DWT range for delivery in 1975.

6. As many Arab oil producers are planning to expand their refining capability, AMPTC may shift some orders from VLCCs to smaller, specialized product tankers in the 50,000 to 100,000 DWT range. The ships will fly the flags of Abu Dhabi, Bahrain, and Qatar. Ships of this size will be more practical in hauling crude and products to Western Europe once the Suez Canal is reopened and deepened.

7. Another joint Arab shipping project is the United Arab Maritime Co. based in Alexandria. Little is known about this organization, but it is believed to be a small specialized products carrier confined to intra-Arab regional trade. It has inquired at Japanese shipyards about a small tanker and combination oil/ore carriers.

### *Representative National Development Programs*

8. Individual OPEC countries have ambitious tanker development plans in addition to their cooperative ventures such as AMPTC. The private Kuwait Oil Tanker Company (KOTC) is the largest shipping enterprise in OPEC. Dating back to 1959, it originally was managed by an English firm but is now run by Kuwaitis.

2. Very Large Crude Carriers - tankers of more than 175,000 DWT.

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Table 1  
OPEC Tanker Fleets

As of 1 January 1975				
	Current Fleet (Thousand DWT)	On Order		1980 Goal (Thousand DWT)
		Thousand DWT	Cost (Million US \$)	
<b>Total OPEC members</b>	<b>2,305</b>	<b>7,577</b>	<b>1,494</b>	<b>30,455</b>
Arab producers	1,520	6,170	1,294	26,024
Kuwait	793	1,344	250	2,657
Iraq	269	1,781	400	4,350
Libya	263	754	184	1,467
Algeria	149	....	....	949
Saudi Arabia	27	80	16	4,132
United Arab Emirates	19	....	....	1,019
Abu Dhabi <sup>1</sup>	....	269	54	1,300
Arab Maritime Petroleum Transport Company	....	1,942	390	10,000 <sup>2</sup>
United Arab Maritime Company	....	....	....	150
Other producers	785	1,407	200	4,431
Venezuela	420	335	67	1,000
Iran	183	860	100	2,331
Ecuador	100	72	5	250
Indonesia	82	140	28	350
Nigeria	....	....	....	500
<b>Joint Ventures<sup>3</sup></b>				
Total	....	....	....	5,331
Ecuador - Japan	....	....	....	150
Iran - Pakistan	....	....	....	156
SAMARCO	....	....	....	3,225
SASCO	....	....	....	400
SATCO	....	....	....	400
United Arab Emirates Tanker Company	....	....	....	1,000

1. Although part of the United Arab Emirates, Abu Dhabi plans a fleet of its own in addition to the UAE fleet.
2. By 1980-82.
3. Current estimates of joint venture fleets are included under individual country totals.

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The KOTC fleet consists of six tankers totaling 793,000 DWT -- all currently under long-term charter to Gulf Oil -- with four VLCCs on order totaling 1.3 million DWT at a cost of \$250 million. A new government shipping company is to merge with KOTC and may provide government capital for the development of Kuwaiti shipping assets.

9. Saudi Arabia has a fleet of only one 27,000 DWT tanker and has two 40,000 DWT tankers on order -- both from a Yugoslav yard for delivery in 1975. By 1980, however, an additional 4 million DWT will be added to the Saudi fleet through joint ventures with Western partners or through AMPTC.

10. Iraq plans to expand its tanker fleet from 269,000 DWT to more than 4 million DWT by 1980. Almost 2 million DWT are on order, including several VLCCs for delivery by 1980. Iraq's interest in tanker acquisitions is grounded in unpleasant memories of oil company boycotts of Iraqi nationalized oil -- about 50% of Iraqi exports in 1972 and 1973 -- before the 1973 Arab embargo. The USSR helped move Iraqi nationalized crude and has supplied crews for Iraq's tankers obtained from Spain.

11. Iran, with a small fleet of only 183,000 DWT in 1975, plans a 2.3 million DWT fleet by 1980, which will make it the largest non-Arab tanker fleet. Included in planned acquisitions are four large tankers totaling nearly 1 million DWT and four VLCCs of up to 400,000 DWT each.

12. Venezuela plans to increase its present 420,000 DWT fleet to 1 million DWT in 1980 and 2 million DWT by 1985. A fleet of this size will enable Venezuela to carry 50% of its estimated petroleum exports by 1985, a standard established by Caracas' recently enacted flag preference legislation. Initial acquisitions will be made abroad, supplemented by the output of two Venezuelan shipyards after 1979.

### *Joint Ventures*

13. Because of a lack of experience, management expertise, and crews in producer countries, most OPEC nations are concluding contracts or forming joint ventures with foreign firms (see Table 2). At least 10 joint ventures have been arranged or are being negotiated. Many OPEC members are being bombarded with offers for fleet development aid from international oil companies, independent tanker owners, management firms, and consumer governments. For example, the

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Table 2

Selected OPEC Joint Ventures<sup>1</sup>

OPEC Participant	Foreign Partner	Remarks
Saudi Arabia (Saudi Arabian Maritime Co., SAMARCO)	Mobil Oil and Fairfield International (US firms)	Equity: 55% Saudi, 45% US. Will acquire four to seven tankers totaling 600,000-900,000 DWT in 1975 and 800,000-1.5 million DWT during the next few years. Vessels are intended for Japanese trade.
Saudi Arabia (Saudi Arabian Co., SASCO)	Mitsui, Japan	Equity: 60% Saudi, 40% Japanese. Contracts being negotiated for two oil tankers totaling 400,000 DWT in Japan.
Saudi Arabia (Saudi Arabian Marine Transport Co., SATCO)	Hong Kong and UK interests	Taking over contracts for two 200,000 DWT oil tankers being built in Japan.
Unit Arab Emirates (United Arab Emirates Tanker Co.)	SHV-Holland	Equity: 51% UAE, 49% Netherlands. Will acquire four 250,000 DWT tankers by taking over existing contracts on purchasing used tonnage. Will use charter tonnage in the meantime. After 12 years, control will revert to UAE.
Ecuador	Japan	Contract calls for Japan to supply two to four tankers averaging more than 75,000 DWT each to carry one-half of Ecuador's crude oil exports within the next few years.
Iran	Pakistan	Six 26,000 DWT tankers to carry part of Iran's crude exports to Pakistan.

1. Several other joint shipping companies or construction contracts are under consideration, but firm details are not available. These include deals between Saudi Arabia and Spain, Libya and Turkey, and between Abu Dhabi and Yugoslavia and Japan.

United Arab Emirates had 30 offers before agreeing to a joint venture with a Netherlands firm. Venezuela is considering eight offers from Netherlands, Japanese, and other foreign operators for various joint ventures.

14. Typical of these joint ventures is the newly formed Saudi Arabian Maritime Co. (SAMARCO). Backed by a Saudi trading firm and two US firms - Mobil Oil and Fairfield International - SAMARCO was created in late 1974 to form a tanker fleet under the Saudi flag to transport oil to Japan. An independent firm - Atlas Maritime - will man and operate the fleet. SAMARCO intends to acquire four to seven tankers totaling 600,000-900,000 DWT this year plus 800,000 to 1.5 million DWT over the next several years. Early in 1975, it acquired the 225,000 DWT *Mobil Mariner* from Mobil Oil and reportedly had forward chartered two VLCCs currently under construction in Japan.

#### Sources of Tankers

15. Virtually all of the impending OPEC tanker acquisitions are new ships on order at foreign yards. Of the 7.6 million DWT on order, nearly one-half will be built at Japanese yards (see Table 3). The remainder will be built in European yards, mainly those in West Germany, Sweden, France, and Spain.

Table 3

Sources of OPEC Tankers on Order  
as of 1 January 1975

	Thousand DWT							
	Total	Japan	West Germany	Sweden	France	Spain	Yugo- slavia	Italy
<b>Total OPEC</b>								
members	7,577	3,398	1,386	1,074	884	625	140	70
Arab producers	6,170	2,326	1,386	1,074	884	360	140	....
AMPTC	1,942	....	1,386	....	556	....	....	....
Iraq	1,781	1,165	....	616	....	....	....	....
Kuwait	1,344	656	....	....	328	360	....	....
Libya	754	236	....	458	....	....	60	....
Saudi Arabia	80	....	....	....	....	....	80	....
Abu Dhabi	269	269	....	....	....	....	....	....
Other producers	1,407	1,072	....	....	....	265	....	70
Iran	860	860	....	....	....	....	....	....
Venezuela	335	....	....	....	....	265	....	70
Indonesia	140	140	....	....	....	....	....	....
Ecuador	72	72	....	....	....	....	....	....

16. OPEC is also developing a local shipbuilding and repair industry. Among the most important projects is the Arab Shipbuilding Repair Yard (ASRY) -- an Arab-backed 500,000 DWT capacity repair dock now being built in Bahrain. According to Arab plans, ASRY will be able to service 95% of all VLCCs operating out of the Persian Gulf by 1980. Other OPEC-sponsored shipyards are under consideration in Malta, Sri Lanka, Dubai, Iraq, Iran, and Venezuela.

### Liquefied Gas Carriers

17. Algeria is the only OPEC country that has specialized liquefied natural gas (LNG) and liquefied petroleum gas (LPG) tankers.<sup>3</sup> Its fledgling fleet of one LNG carrier and one LPG carrier totals only 46,000 cubic meters, compared with the world fleet of about 3.5 million cubic meters (see Table 4). Together, Algeria and Kuwait have ordered more than 1 million cubic meters of specialized gas carriers -- most of which are LNG tankers -- which will cost nearly \$1 billion. By 1980 a fleet of nearly 7 million cubic meters is planned for all of OPEC. Most of these ships will be tied to various LNG and LPG projects with Western firms.

Table 4

### OPEC Liquefied Gas Carriers' Capacity

Thousand Cubic Meters									
As of 1 January 1975									
	Current Fleet			On Order			1980 (Estimated)		
	Total	LNG	LPG	Total	LNG	LPG	Total	LNG	LPG
Total OPEC									
members	46	40	6	1,155	875	280	6,802	5,780	1,022
Arab producers	46	40	6	1,155	875	280	4,052	3,030	1,022
Algeria	46	40	6	750	750	....	1,625	1,625	....
Kuwait	....	....	....	405	125	280	1,427	405	1,022
Qatar	....	....	....	....	....	....	500	500	....
AMPTC	....	....	....	....	....	....	500	500	....
Other producers	....	....	....	....	....	....	2,750	2,750	....
Iran	....	....	....	....	....	....	2,125	2,125	....
Venezuela	....	....	....	....	....	....	625	625	....

3. Both LNG and LPG carriers require refrigeration to liquefy the gas. Natural gas requires more refrigeration than petroleum gas; the LNG carrier therefore has a different configuration from the LPG carrier and is more expensive.

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## Crew Procurement

18. While foreign help will be required to manage and crew OPEC's new tankers in the short term, moves are being made to train local manpower. AMPTC alone will require 1,000 officers, men, and administrative personnel to operate its first six tankers and as many as 12,000 men by 1980. The Arab Maritime Transport Academy, under sponsorship of the UN Intergovernmental Maritime Consultative Organization (IMCO) since 1971,<sup>4</sup> is being upgraded with a \$2.6 million loan. This school, which will become fully operational by 1977, will train Arab tanker officers as well as administrative, financial, and other support personnel.

19. Many OPEC nations, particularly Kuwait and Saudi Arabia, are sending trainers abroad. Tanker operations, however, need not await training of local manpower. Foreign crews provided by specialized crew procurement firms are available. Beyond this, OPEC nations are advertising for tanker personnel in the major maritime countries.

## Cargo Preference Legislation

20. To ensure that their merchant fleets will be fully employed, many nations, particularly developing countries, have enacted cargo preference legislation requiring that a certain portion of their seaborne trade be carried in their ships. The push for cargo preference legislation was started several years ago by developing nations who felt their fleets were entitled to carry a part of their seaborne trade. Today, such non-OPEC countries as France, Japan, Spain, and a number of Latin American countries have some form of flag preference legislation in force.

21. Some OPEC nations have enacted cargo preference legislation. In January 1975 Saudi Arabia announced that henceforth 5% of its oil exports must be shipped in Saudi-flag ships. This percentage may be increased to 25%-50% by 1980. Algeria reserves 50% of its oil and LNG exports, and Venezuela's graduated cargo preference law will eventually reserve 50% of exported oil. AMPTC, Kuwait, and Libya have indicated that their tankers will receive preferential treatment.

22. The UN Convention on a Code of Conduct for Liner Conferences - developed through the United Nations Conference on Trade and Development (UNCTAD) - is an outgrowth of the trend toward greater participation by developing countries in the carriage of their seaborne trade. Drafted in April 1974,

4. The Academy was established to train personnel from Bahrain, Egypt, Iraq, Jordan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, and Sudan.

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the Code, if adopted, will entitle each nation to carry 40% of its seaborne liner trade,<sup>5</sup> reserving 40% to its trading partners and 20% to third-country ships. To enter into force, the Code requires, by July 1975, the signature of 24 countries who own 25% of the world liner fleet. To date, only six countries – Iran, Ecuador, Yugoslavia, the Philippines, Gabon, and Guatemala – owning less than 3% of the world's liner tonnage, have signed. The Code does not apply to the movement of petroleum in tankers, and there has been no effort to enact a similar agreement for this purpose.

### Producer Options and the World Tanker Market

23. Although the OPEC tanker fleet will represent only a small percentage of the world tanker fleet and will be able to carry about 22% of its estimated exports by 1980 (see Table 5), the methods by which OPEC obtains its tankers will have an impact on the world tanker market. While worldwide movement of petroleum by sea has leveled off since the 1973 Middle East conflict, new tankers ordered prior to the October 1973 war will continue to be added to the world fleet through 1977, creating a glut in the world tanker market. If OPEC countries continue to order new tankers, the tanker glut will intensify and push tanker rates lower. As charter rates are currently at or below break-even costs, such a situation could force many tankers into lay-up and several tanker owners into bankruptcy. OPEC tankers would be assured employment, however, through flag preference legislation.

24. OPEC could shift purchases to used tankers or to the acquisition of rights to tankers already under construction. Under these circumstances, OPEC acquisitions could improve the depressed tanker market. The OPEC nations, however, appear to be waiting for further declines in tanker prices. OPEC members seem to be least interested in chartering tonnage from foreign owners except as a short-term expedient. In fact, it is likely that OPEC nations will choose to charter 80%-85% of their future fleet to oil firms.

25. Arab producers must also decide whether to continue to purchase VLCCs or switch to smaller crude oil and products tankers that can transit the Suez Canal. On reopening, the Canal will be limited to loaded vessels of 50,000 DWT or less. Even if the Canal is deepened as planned, transit will be limited to tankers of 150,000 DWT or less through the beginning of 1979. The SUMED pipeline between

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5. Liner services normally involve the movement of general cargo on regularly scheduled ships between designated ports.

Table 5

Estimated Transport Capability of OPEC Tanker Fleets, 1980<sup>1</sup>

	Fleet (Million DWT)	Petroleum Exports to Free World (Million b/d)	Tanker Require- ments (Million DWT) <sup>2</sup>	Carriage Capa- bility (Percent)
<b>Total OPEC members</b>	<b>30.5</b>	<b>24.0</b>	<b>136.4</b>	<b>22</b>
Arab producers	26.0	13.5	81.7	32
Iraq	4.4	2.3	13.6	32
Saudi Arabia	4.1	5.5	40.4	10
Kuwait	2.7	1.6	11.8	23
Libya	1.5	1.3	1.8	83
UAE and Abu Dhabi	2.3	1.2	8.6	27
Algeria	0.9	1.1	1.9	47
Qatar	....	0.5	3.6	....
Arab Maritime Petroleum Transport Company	10.0	....	....	....
United Arab Maritime Company	0.2	....	....	....
Other producers	4.4	10.5	54.7	8
Iran	2.3	5.0	36.1	6
Venezuela	1.0	1.4	2.8	36
Nigeria	0.5	2.1	8.8	6
Indonesia	0.4	1.8	6.8	6
Ecuador	0.2	0.2	0.2	100

1. Because of rounding, components may not add to the totals shown.

2. Estimated tanker requirements are based on projected 1980 oil exports and an estimated mix of destinations based on 1973 export data. All estimates should be considered minimum requirements.

the Red Sea and the Mediterranean is expected to be operational by 1977 and could handle 1.6 million barrels per day of petroleum. In addition, the growth in Arab refinery capacity will increase the need for small, specialized products tankers instead of crude carriers. These developments will reduce the need for VLCCs and increase demand for smaller crude and product carriers.